



Other assets and liabilities (except cash) were taken over by the company at the following values:

	Sh. "000"
Premises	50,000
Motor vehicles	18,000
Equipment	10,000
Trade payables	80,000
Accruals	10,000
Inventory net of 10% for obsolete stock	
Receivables net of provision for doubtful debts of 5%	
Prepayments were valueless	

- Additional costs incurred by the partnership in arranging the sale of the business amounted to Sh.3 million.
- The company agreed to issue 15 million shares of Sh.10 each at a premium of 24%. The shares were to be divided between Dida and Vuma in the ratio of 3:2 respectively.
- The partners' drawings were made in the following months:  
Dida : November 2016  
Vuma : February 2017
- The rule of Garner Vs Murray is to apply.

**Required:**

- Realisation account. (8 marks)
- Partners' capital accounts. (5 marks)
- Statement of financial position of Fariji Ltd. as at 2 May 2017. (7 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance relates to Apple Ltd. as at 31 March 2017:

	Sh. "000"	Sh. "000"
Ordinary shares of Sh.10 par value		100,000
Share premium		40,000
Retained earnings (1 April 2016)		22,400
Land and buildings at cost (Land Sh.40 million)	120,000	
Plant and equipment at cost	189,000	
Accumulated depreciation: 1 April 2016:		
Buildings		40,000
Plant and equipment		49,000
Inventories (31 March 2017)	87,400	
Trade receivables	84,400	
Bank balance		13,600
Deferred tax		12,400
Trade payables		70,200
Revenue		1,100,000
Cost of sales	823,000	
Distribution costs	43,000	
Administrative expenses	61,800	
Dividends paid	40,000	
Bank interest	1,400	
Current tax		2,400
	1,450,000	1,450,000

**Additional information:**

- On 1 April 2016, the company's directors decided that land and buildings should be revalued at their market values. At that date, an independent expert valued land at Sh.24 million and buildings at Sh.70 million and these valuations were accepted by the directors. The remaining useful life of buildings on that date was 14 years. The company does not make a transfer to retained earnings for excess depreciation.
- Plant and equipment is depreciated at 20% per annum using the reducing balance method and time apportioned as appropriate. Depreciation for the year is yet to be accounted for.
- Directors' remuneration amounting to Sh.11 million should be provided for and is classified as administrative cost.
- Income tax provision of Sh.54.4 million is required for the year ended 31 March 2017. As at that date, deferred tax liability amounted to Sh.18.8 million. The movement in deferred tax should be taken to profit or loss. The balance on the current tax in the trial balance represents over/under provision of tax liability for the year ended 31 March 2016.
- On 1 July 2016, the company made a rights issue of 1 share for every 4 shares at Sh.24 each. Immediately before this issue, the stock market value of the shares was Sh.40 each.

**Required:**

- (a) Statement of comprehensive income for the year ended 31 March 2017. (8 marks)
- (b) Statement of changes in equity as at 31 March 2017. (4 marks)
- (c) Statement of financial position as at 31 March 2017. (8 marks)

**(Total: 20 marks)****QUESTION FOUR**

The following financial statements relate to Hema Ltd. and its investment companies Shuka Ltd. and Ajabu Ltd. for the year ended 30 April 2017:

**Income statement for the year ended 30 April 2017**

	Hema Ltd. Sh. "million"	Shuka Ltd. Sh. "million"	Ajabu Ltd. Sh. "million"
Revenue	1,200	600	300
Cost of sales	(650)	(250)	(100)
Gross profit	550	350	200
Investment income	70	-	1
Distribution cost	(100)	(40)	(30)
Administrative expense	(130)	(90)	(50)
Finance cost	(40)	(20)	(20)
Profit before tax	350	200	101
Income tax expense	(70)	(50)	(31)
Profit for the year	280	150	70
Dividends paid	(50)	(50)	(30)
Retained profit for the year	230	100	40
Retained profit brought forward	480	275	160
Retained profit carried forward	710	375	200

**Statement of financial position as at 30 April 2017**

	Hema Ltd. Sh. "million"	Shuka Ltd. Sh. "million"	Ajabu Ltd. Sh. "million"
<b>Assets:</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	1,250	800	650
Intangible assets	200	70	80
Investments	850	50	20
	<u>2,300</u>	<u>920</u>	<u>750</u>
<b>Current assets:</b>			
Inventory	200	75	60
Trade and other receivables	300	90	80
Financial assets at fair value	30	20	10
Cash and cash equivalents	150	40	40
	<u>680</u>	<u>225</u>	<u>190</u>
<b>Total assets</b>	<u>2,980</u>	<u>1,145</u>	<u>940</u>
<b>Equity and liabilities:</b>			
<b>Equity:</b>			
Ordinary share capital	1,000	200	200
Share premium	300	50	50
Revaluation reserve	200	50	50
Retained profits	710	375	200
	<u>2,210</u>	<u>675</u>	<u>500</u>
<b>Non-current liabilities:</b>			
10% loan stock	500	200	200
<b>Current liabilities:</b>			
Trade and other payables	250	250	220
Current tax	20	20	20
	<u>270</u>	<u>270</u>	<u>240</u>
<b>Total equity and liabilities</b>	<u>2,980</u>	<u>1,145</u>	<u>940</u>



	Sh. "million"	Sh. "million"
Legal costs: Marine	216	
Fire	156	
Expenses relating to claims (Marine)	384	
Bad debts written off: Marine	204	
Fire	144	
Investment in shares	1,680	
Direct premiums received: Marine		5,400
Fire		4,200
Re-insurance premiums received: Marine		1,440
Fire		960
Re-insurance premiums paid: Marine	960	
Fire	600	
Bank balance and cash in hand	<u>132</u>	
	<u>28,440</u>	<u>28,440</u>

**Additional information:**

1. Unearned premiums reserve for unexpired risk is to be maintained at 100% and 50% of the premiums for marine insurance and fire insurance respectively.
2. Commission on both insurance ceded and re-insurance accepted is at a rate of 5% of the premiums.
3. The directors have proposed a dividend of 5% on the outstanding share capital as at 31 March 2017.
4. The tax rate applicable is 30%.
5. Premiums outstanding as at 31 March 2017 amounted to Sh.1,800 million and Sh.840 million for marine insurance and fire insurance respectively.
6. Claims intimated and outstanding as at 31 March 2017 amounted to Sh.900 million for marine insurance and Sh.576 million for fire insurance.

**Required:**

- (i) Revenue account for both marine insurance and fire insurance for the year ended 31 March 2017. (5 marks)
  - (ii) Statement of comprehensive income for the year ended 31 March 2017. (3 marks)
  - (iii) Statement of financial position as at 31 March 2017. (6 marks)
- (Total: 20 marks)**
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